MERCHANDISING TRENDS

Two ways to sell tapes

Eckerd

Jack Eckerd started selling prerecorded videotapes in August in a program built around public domain films and licensed children's cartoon programs at under $10.

The chain is doing a brisk business by promoting tape assortments in monthly tabloids and by varying the mix regularly, according to Jack DiSalvo, Eckerd senior buyer.

"You have to alternate your titles to be successful. I think of treating my department as a magazine rack," said DiSalvo.

Eckerd recently promoted movie tapes such as "Gung Ho," "Metropolis," "The Man With the Golden Arm," and "The Little Princess " and a 20-minute family workout program at $6.88, regularly $10.99.

Eckerd sells peg-displayed tapes in all 1,500 stores. It rents tapes from 150 units.

DiSalvo launched the program with low-end items he feels the customer is most likely to accept. Fast-turning licensed tapes include the "Good Times Kids Klassics," which has the rights to such licenses as Hanna-Barbera and the Muppets.

Eckerd will evolve to higher price points, such as the Disney line at $15 to $29, once the low-end proves itself, DiSalvo says.

The stores carry 72 titles, representing about $800 in inventory. DiSalvo stocks strictly the VHS format, since Beta and 8mm are in less demand.

Eckerd avoids the high-priced first release movie tapes because "there's not a viable mass market for them yet," DiSalvo said. Yet he's optimistic about the potential for tape sales, based on his success so far and on the continued projected boom in VCR ownership.

Genovese

Genovese Drugs is planning to sell an assortment of prerecorded videocassettes in a majority of stores in 1987, after two years of selling tapes only during the Christmas season.

The Long Island, N.Y., chain will carry tapes priced in the $19 to $29 range, with an emphasis on children's videos, which it bought for recent Christmas seasons from such vendors as TransAtlantic Video and Karl Lorimar, said buyer Lenny Genovese.

The chain promoted children's tapes for Christmas '85 that sold well. It offered tapes in a range of prices this past holiday season, including a children's learning program at $4.99 and the Jane Fonda workout tape on promotion at $29.95. Thanks to hometown fever, the most successful tapes have been on the World Series champion New York Mets—for example, "Lets Go Mets," featuring highlights of 1986-season Mets games at $19.95.

Genovese included tapes in its sales catalog for the Christmas just ended.

"The business is growing, and we want to emphasize the learning tapes for children," said Genovese, referring to the largely suburban family markets it serves.

The chain will continue to rent prerecorded tapes from two stores where available space has allowed them to set up departments. It carries 1,200 titles in each store.

Drug stores narrow choice of blank videotape brands

Trade survey cites more promotions, 8mm potential

The billion-dollar blank videocassette market, while expected to grow rapidly to $1.3 billion (factory sales) in 1987, is becoming increasingly competitive among vendors, who see retailers carrying fewer brands than in previous years.

A recent survey of retailers in 13 major markets, conducted in person this fall by Contemporary Market Research for Fuji, a tape manufacturer, indicated that among all classes of trade, the average number of brands sold declined from 4.74 to 3.89—out of about 30 vendors.

Drug stores in particular became the most selective, dropping their brand variety from 3.74 to 3.04 during the past two to three years. In comparison, electronics stores carry 3.06 brands; food stores, 3.12; record stores, 3.22; and mass merchants, 5.09, the survey said.

The worst cuts appear to be over. Four out of five retailers don't anticipate cutting or adding brands in 1987. No brand has more than a 19% share, the survey said.

Projected VCR household penetration

Year	% of TV-owning households
1985	30.9%
1986	44.1
1987	55.5
1988	61.9
1989	66.6
1990	68.6

Source: Video Marketing

The five criteria considered most important by retailers in gauging brand sales volume were: consumer demand, tape quality, price, brand recognition and sales promotion and advertising support.

Where quality is concerned, 71% of retailers surveyed said that consumers don't understand the differences among various tape grades. "This becomes most apparent by the consumers' two most frequently asked questions," the survey said. "Is this tape good value for the money? Is the tape good overall quality?"

Despite the surge in VCR ownership, it appears many Americans are casual users of their equipment rather than technical purists and readily accept good and better grades, with relatively few demanding the best grades of tape.

While VHS format tapes account for 90% of sales and Beta 8%, 8mm should experience visible growth in 1987. Between one-quarter and one-half of all retailers surveyed in all trade classes, except for drug stores, are expected to carry 8mm hardware next year.

Retailers felt about equally strongly that national and local videotape advertising were effective ways to build sales. About seven in 10 felt this way.

In evaluating promotions, 36% favored consumer rebates, and 34% cited sales and reduced retail prices as the two favored ways to build movement. Free tapes inside multiple-packs were favored by 23% of those surveyed, and cents-off coupons by 15%.

A majority of retailers said store displays "are the most effective means to increase videotape sales," according to the survey. Some 39% used displays, and 34% used signs and banners.

Usage habits of VCR owners

Monthly activity	Incidence*	Frequency
Rented a prerecorded cassette	50%	6.3 cassettes/month (among renting households)
Purchased a prerecorded cassette	5	56% bought one; 44% bought two or more.
Purchased blank tape	13	4.3/month (among purchasing households)
Recorded	74	14.6 recordings (among recording households)
Played back	86	15.2 playbacks/month (among households that played back)

*Percentage of respondents who reported activity

Base: Total VCR households

Source: A. C. Nielsen

Facts about batteries

- Consumers used 900 million battery-operated devices in 1985, 18% more than in 1982.
- They bought over 2 billion batteries.
- Alkaline batteries will capture 75% of the total market by 1990.
- Over 90% of batteries are bought on impulse, making them one of the least planned purchases in drug stores.
- About 20% of batteries are purchased through drug stores, 29% in supermarkets and 16% in discount/catalog showrooms.
- Most alkaline batteries retain 95% of their energy for up to three years, and the average age of batteries when purchased is under 12 months, so most cells contain close to their full energy potential when they are bought.

Source: Duracell U.S.A.

Electronics, toys assure future

Battery buying binge unabated

Sharp vendor promotions and unabated demand from consumers for battery-driven toys and electronic goods are charging drug stores' battery sales, according to drug retailers.

"Customers are buying them like cookies," said Ray Crampton, assistant vp-merchandising, Dart Drug.

Moreover, the cutthroat competition by the major branded vendors, combined with the proliferation of battery-driven devices, figures to maintain batteries as a key impulse sale category through the rest of the decade.

The nation's retail battery sales were estimated at $2.5 billion in 1986, and are expected to grow 10% a year, and exceed $3.5 billion by 1990, vendors estimated.

Alkalines account for most of the growth, having surged from 15% of battery unit sales in 1975 to 62% in 1986. They are anticipated to grow at 9% to 10% a year, vendors say.

Consumers are willing to buy the alkaline cells at twice the price of the zinc-cadmium cell to obtain six times the cell

Continued on page 18

INSIDE PHARMACY®

N.Y. eyes multiform tranquilizer scripts

By Diana Sterne

ALBANY, N.Y. — New York State may soon require the use of multiple-form prescriptions for Valium and other benzodiazepines in an effort to curb prescription forgeries, drug abuse, overprescribing and Medicaid fraud.

State Health Commissioner Dr. David Axelrod proposed the new rule and, following a review by the Public Health Council, is expected to put it into effect early this year.

The new system would allow the state "to enter prescriptions into the computer and see what kinds of (prescribing) patterns are out there," said Peter Slocum, public affairs director, New York State Department of Health. One copy of the form is retained by the physician, another is used by the patient to fill the prescription and the remaining copy is sent to the commissioner's office. Slocum said the system "will make physicians more aware of the problem of overprescribing."

"The writing of an estimated 6.4 million to 8.6 million prescriptions of benzodiazepines state-

See ***N.Y.,*** *page 24*

Rx drug price study riles industry

Branded/generic costs compared

WASHINGTON — Although the nation's pharmacists pay substantially less for generics than for brand-name pharmaceuticals, consumers are not always guaranteed that they will pay less for generic prescriptions, according to a controversial study published recently.

Findings of the study, which appeared in the Nov. 14, 1986, issue of the *Journal of the American Medical Association*, conclude that drug stores tend to mark up generics more than brand drugs, both in per cent and dollars.

The study's main author, health economist Bernard S. Bloom of the University of Pennsylvania, also concluded that there are several other factors that may work against "realizing the theoretical dollar savings associated with generic substitution," including the fact that there is "often no obligation that the pharmacy pass on a major portion of the savings from their purchase of

See ***Costs,*** *page 31*

Probabilities of generic being less expensive than brand drugs

Generic	Brand	Dose	Probability of generic less expensive than brand
Conjugated estrogen	Premarin	0.625mg	0.40
Conjugated estrogen	Premarin	1.25mg	0.40
Furosemide	Lasix	20mg	0.33
Furosemide	Lasix	40mg	0.41
Chlorthalidone	Hygroton	25mg	0.78
Chlorthalidone	Hygroton	50mg	0.83
Dipyridamole	Persantine	25mg	0.91
Dipyridamole	Persantine	50mg	0.99
Hydralazine	Apresoline	25mg	0.86
Hydralazine	Apresoline	50mg	0.95
Isosorbide dinitrate	Isordil	5mg	0.87
Isosorbide dinitrate	Isordil	10mg	0.95
Isosorbide dinitrate	Isordil	20mg	0.87
Indomethacin	Indocin	25mg	0.59
Indomethacin	Indocin	50mg	0.78
Tolbutamide	Orinase	0.5g	0.82
Chlordiazepoxide	Librium	5mg	0.81
Chlordiazepoxide	Librium	10mg	0.86
Thioridazine	Mellaril	25mg	0.56
Thioridazine	Mellaril	50mg	0.58
Quinidine gluconate	Quinaglute	—	0.55

Source: *Journal of the American Medical Association*, "Cost and Price of Comparable Brand and Generic Pharmaceuticals," Bloom et al, Table 6.

Findings called misleading, dated

NEW YORK — The pharmaceutical industry attacked a study recently published in the *Journal of the American Medical Association (JAMA)* that compares prices of generics to branded drugs.

Calling the study "biased and outdated," NACDS president Bob Bolger said in a letter to the editor of *JAMA* that the study "is clearly intended to mislead both physicians and consumers regarding the cost-savings benefits associated with generic drugs.

"We strongly disagree with the study's blanket statement that shopping for the least costly generic prescription can be a costly process," said Bolger.

He said that chain drug stores are "committed to making available price information to customers" and "encourage customers to check prices by phone to determine which pharmacies have the lowest prices."

Reaction to the study was

See ***Reaction,*** *page 31*

Average chain's script sales up 20% in '85: Lilly

INDIANAPOLIS — The average chain drug store saw a 20% increase in prescription sales in 1985 to nearly $650,000, representing 28.6% of total store sales.

That was a major finding in this year's *NACDS-Lilly Digest*. According to the report, the jump in prescription sales was the highest in the *Digest*'s 15-year reporting history

The *Digest* attributed the dollar volume gain to a "marked increase in the total number of prescriptions accompanied by a $1.11 rise in the average prescription charge."

The average chain drug unit dispensed 49,925 prescriptions in 1985, up 4,430 from 1984 figures. There was less than a four-point differential between new (51.8%) and refills (48.2%).

The average cost of a prescription to a chain drug store customer was $13.01, compared with $11.09 the year before.

The high prescription volume was reflected in productivity figures as well.

According to the report,

See ***Lilly,*** *page 31*

What JAMA study leaves unsaid needs airing

A study published recently in the *Journal of the American Medical Association* (see stories this page) has caused quite a stir in the pharmaceutical community.

I really don't think it's the actual findings of the study that have everyone peeved. After all, the findings show that, overall, generics *are* less expensive to the consumer than the branded drug; but in some instances, generics cost the consumer as much as, or even more than, the brand.

That may be so, but what the report did not uncover are the reasons behind it all.

The pharmacy business has become fiercely competitive in the last decade. Pharmacists are struggling for survival, and to meet competition head-on, low-balling some widely used brand-name drugs is a necessary ingredient to that survival.

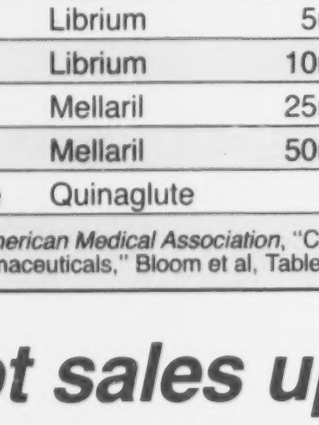
What I think is really at the heart of everyone's anger is the study's implication that pharmacists are getting rich off generics and somehow pulling the wool over the consumer's eyes.

I'm here to tell you that pharmacists today aren't getting rich off anything they sell in the drug store, especially generics.

Cohen's Capsules

Harold Cohen, R.Ph.

Pharmaceutical Editor



Oh, maybe per cent margins on generics are higher, but let's not lose sight of the fact that pharmacists are working off a much lower cost base with generics. Therefore, profit dollars for generics are very often less than for branded products.

This business of accusing pharmacists of gouging prices is an age-old problem retail pharmacy has had to face from consumer groups. Here again, in this study, it was suggested that consumers should shop around for the best prices on generics because there are wide differences in price for the same generic product in different stores.

Isn't that true of just about any product? Why should prescriptions (in this case generics) be any different?

Wide variations exist for a number of different reasons. But the two that seem always to crop up in most businesses are overhead and services. Ultimately, where the consumer buys generics (or any other drug product) will be determined by these two factors and reflected in the pharmacists' prices. Competition is healthy, and I think as business people, pharmacists should encourage price comparisons.

But unlike many other consumer buying situations, no matter what the price consumers pay for their drugs, they are always assured they are getting a product that is being dispensed by a professional. We must never lose sight of that.

I urge you as pharmacists to keep reminding the cost-conscious public that the drugs they are buying are backed by the safety that's assured by five or six years of professional education.

Any way you slice it, generic or branded, that's still a bargain, and no study in the world can refute that.

Reaction to price study heated

Continued from page 23

much the same from Perry Drug, where Berl Falbaum, spokesman for the Pontiac, Mich.-based chain, called the study "flawed and distorted."

Falbaum said the study tears down years of trying to educate the consumer on the cost savings associated with purchasing generics.

At the New York City headquarters of the Generic Pharmaceutical Industry Association (GPIA), reaction was heated.

"This is another outrageous effort to mislead physicians and consumers about the benefits of generic drugs," said Dee Fensterer, GPIA president.

Referring to funding for the study that came from Ayerst Laboratories, Fensterer said that "this study is a blatant drug company attempt to persuade doctors to prescribe high-priced brand-name drugs."

Ayerst Laboratories declined to comment on the report or on Fensterer's remarks.

At the American Pharmaceutical Association (APhA), Ron Williams, director of communications, said that the study had no surprises for him.

"If the study had shown significant similarities rather than significant differences between generic and branded pricing, I would have been surprised," said Williams. "The study just reflects a highly competitive market."

Williams said he was somewhat disturbed that the study did not address the costs involved in "varying levels of pharmacy services" and the use of certain branded drugs as "loss leaders."

For Todd Dankmyer, vp of communications at the National Association of Retail Druggists (NARD), the *JAMA* report was done too soon after passage of the Drug Price Competition and Patent Term Restoration Act of 1984.

"This study was done in the early months after passage of that act," said Dankmyer.

Lilly Digest reports

Continued from page 23

prescription revenue per square foot of professional area rose to over $1,325, while sales productivity for the non-prescription area fell 17% to about $167 per square foot. Overall, total sales per square foot fell about 10% to just over $220.

The *Digest* cited third-party programs as a major factor in the unusual rise in the average prescription charge.

"Historically, the major determinant of [the average prescription price] has been the number of units dispensed on each prescription. Third-party programs, especially, have accelerated the quantity of medication dispensed on each order," said the report.

Turning its attention to gross margin, the *Digest* revealed that the average gross margin in a chain drug store unit rose 0.5% to $642,017 in 1985 from $638,625 in 1984, based on total sales of $2.3 million.

This is the last issue of the *Digest* that will be published, because most chains today rely on their own system of tracking and reporting, the editors said.

Branded/generic costs compared

Continued from page 23

generic drugs to the consumer."

Although half the states do require that some or all of the savings attributed to generics be passed on to the consumer, Bloom suggested that if such a requirement was in effect in all states, consumers would realize a savings.

However, what Bloom and his colleagues did not point out in their conclusion was data from their study showing that both generics and brand name drugs generally cost the consumer more money in states with pass-through savings laws than in those states that do not have such regulations.

On the average, consumers can save money purchasing generics, Bloom said, noting that for 18 of the 21 pairs of drugs studied, the brand-name drug had a higher median price per pill to the consumer than the generic.

However, the data also show that in one case, consumers paid a median price of 13.8 cents per pill for generic furosemide (20mg), compared with a median price of 13.5 cents for brand-name counterpart Lasix (20mg), while the median cost per pill to the pharmacy was 4.2 cents for furosemide and 7.5 cents for Lasix.

In another case, prices for generic conjugated estrogen and the equivalent brand Premarin in 0.625mg dose both cost consumers a median of 12.7 cents per pill, but cost the pharmacy a median of 4.9 and 8.6 cents, respectively, per pill.

(According to Dr. Bloom, the third case involved furosemide and Lasix in 40mg dose, but because of an error that was not caught until after the study went to press in *JAMA*, Table 2 in the published article does not reflect this finding.)

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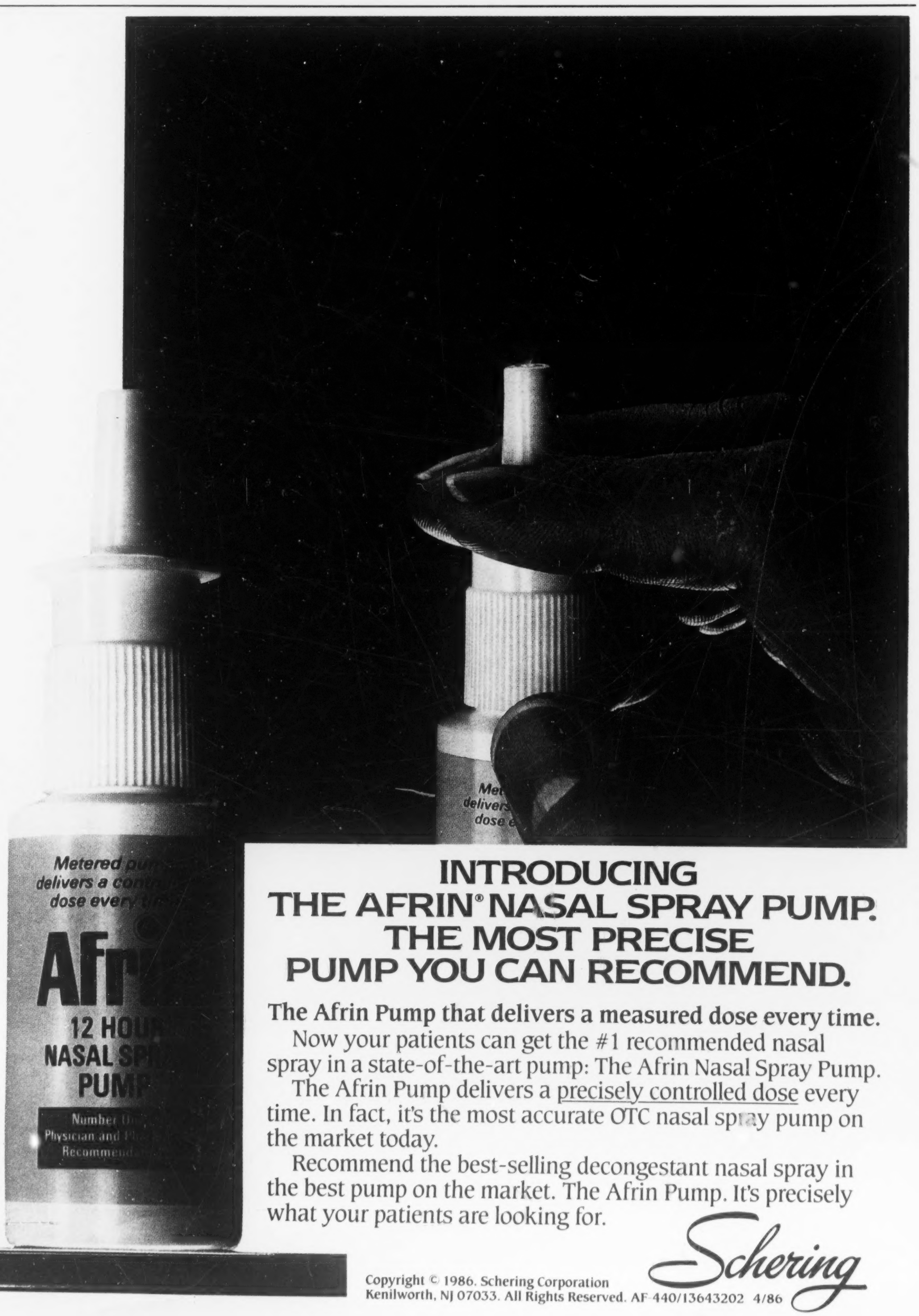

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Strategies for selling children's vitamins—page 14

DRUG STORE NEWS

Vol. 9/No. 2 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. January 19, 1987

Kroger:
Buying combos in Fla. . . .

CINCINNATI — Kroger is on the way to tripling its store count in Florida, as it introduces full-size combo units for the first time in the Sunshine State.

The chain will launch a new version of its combo store to spearhead growth, primarily in Orlando and the southeast. In December, Kroger bought 21 A&P Family Mart stores, which will be used to implant the new prototype in the Tampa-St. Petersburg market.

Called Florida Choice Food and Drug, the stores will be similar in size to Kroger's typical combo, at 55,000 sq. ft., but tailored to the Florida market. Changes include more and larger service departments, expanded greeting card and optical sections and more convenience food.

Food Choice banner

Kroger's 27 SupeRx Food and Drug stores—the 21,000- to 26,000-sq.-ft. minicombos that were operated until a year ago by Kroger's former SupeRx Drug division—will take on the Food Choice banner.

About 20 new Food Choice units are planned through ground-up construction and buyouts. Kroger recently bought two Orlando stores and three in Naples slated for conversion.

See related story, page 3

A Kroger source said that its Florida growth agenda is "fairly tentative."

Thirteen of the 56,000-sq.-ft. A&P units are in the Tampa-St. Petersburg market. Others, which are scattered statewide, will also be converted to the Florida Choice format.

"The key to the Family Mart acquisition is it allows us

See **Kroger,** *page 53*

. . . Creating bigger ones in Ariz.

PHOENIX — Kroger will give Fry's more sizzle. It plans to combine as many as eight with adjacent SupeRx stores here and in Tucson, market sources said.

The linkage would create a larger combination store prototype that would build off Fry's grocery goods strength in this hot market.

The teaming, which Kroger officials were unable to confirm at presstime, apparently stems in part from the supermarket giant's inability to unload the 38-store SupeRx division here.

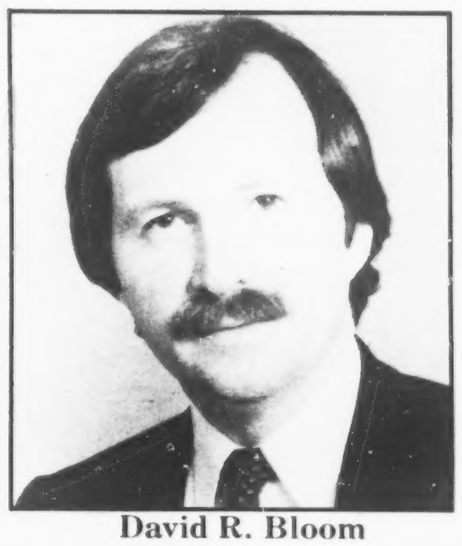
Sources said that such local competitors as Walgreens, Osco and Longs showed interest in buying selected stores. But Kroger wants to sell them as a package, as it leaves the drug store business.

The chain presumably would keep the SupeRx stores that share a common wall with Fry's units in shopping center locations. Fry has 32 50,000-sq.-ft. to 58,000-sq.-ft. stores in the greater Phoenix market and about six in Tucson. Twenty-one of these have pharmacies.

The chain is known as a highly aggressive food merchandiser that until now, has relegated nonfood to a secondary role in the face of the tough drug store environment.

"Fry's is just doing a super job out in the market," commented one local wholesaler.

Sheldon 'Bud' Fantle



David R. Bloom

Fantle retiring; Imasco to merge Shoppers/Peoples

After 40 years with Peoples Drug, Sheldon 'Bud' Fantle, chairman, president and ceo, is retiring.

Simultaneously, Peoples' parent company, Imasco Ltd. of Canada, is immediately merging the Peoples Drug chain with its sister drug chain, Shoppers Drug Mart of Toronto and creating a new retail division: the Imasco Drug Retailing Group.

David R. Bloom, a 23-year veteran of Shoppers and its ceo since 1983, has been named ceo of the new division.

In announcing Fantle's retirement, Purdy Crawford, the president and ceo of Imasco Ltd., described Fantle's years with the company as a "model of achievement" and noted that under his leadership, Peoples has grown to a chain of 851 stores generating sales of $1.8 billion in Canadian currency.

"Our challenge now," said Crawford, "is to build on Bud's outstanding legacy.

Crawford added that since Imasco acquired Peoples in 1984, management at both Shoppers and Peoples have come to know one another.

Crawford added that under Bloom's leadership, both chains should be able to profit from their mutual understandings.

Shoppers Drug in 1986 had sales of nearly $1.6 billion (Canadian) and operates a total of 542 drug and deep discount drug stores.

Drug store worker output drops

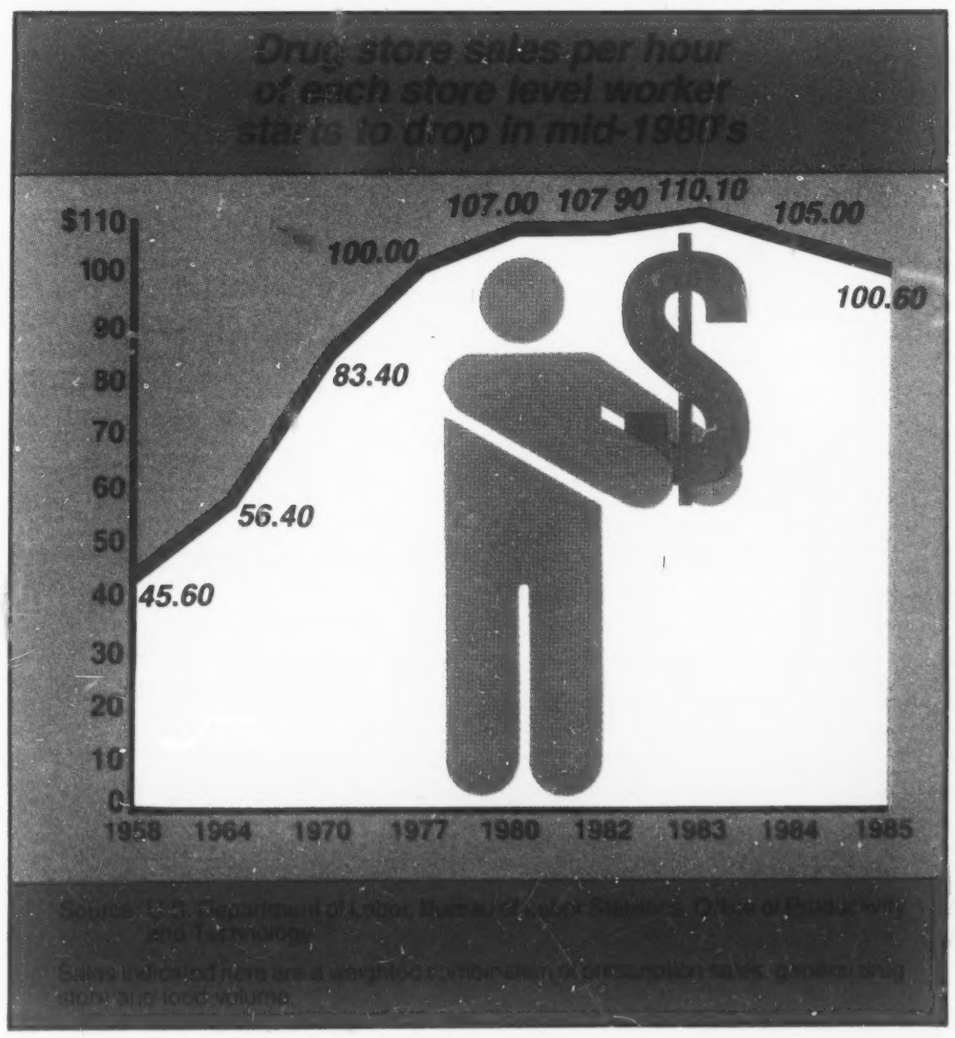
This is the first of a two-part series. In Part Two, which will appear in an upcoming issue, Drug Store News *will examine the industry's productivity concerns and how they will act upon them.*

WASHINGTON — Drug store industry employee productivity dropped significantly in the 1980's, ending more than 20 years of steadily increasing worker output, according to figures compiled by the U.S. Department of Labor.

In addition, department researchers see no letup in the productivity tailspin among the nation's drug and proprietary stores. Preliminary evaluation of data for 1986 indicates that productivity "will remain flat at best" and probably will continue to drop, they said.

That's more bad news for the drug store industry, where output per worker fell more than 6% in two years

See **Output,** *page 53*



Revco's buyout is based on past profits record

By Dave Vaczek

TWINSBURG, Ohio — The Anac group based its buyout of Revco on projections that the drug store division would grow sales 12% annually and garner 7.7% operating profits each year into the 1990's.

Drug division performance will have to cover an annual debt cost of more than $150 million a year, or five times what Revco paid as a public company, according to a final prospectus dated Dec. 18. Shareholders endorsed the leveraged buyout Dec. 16.

"We can do better than 7.7% if we do things right," said Robert Meisel, president of D.S. Corp. Ltd., a subsidiary of Transcontinental Services Group, NV, the new majority owner of Revco D.S.

"The growth opportunities were always in the drug stores and in Odd Lot," Meisel said of the divisions that account for over 90% of corporate sales.

These divisions, plus the seven subsidiaries earmarked for sale, grew sales an average 13% each year from 1982 to 1987, with 10% growth forecast for the 1987 year ending in May, an analysis of the prospectus shows.

The average operating profit ratio in these years was 6%, a multiple that was dragged down in fiscal 1985, when drug division performance and non-drug-group cost factors ham-

See **Revco,** *page 53*